Date: June 27, 2003

To: Hon. James L. Brulte
Senator, 31st District

From: Elizabeth G. Hill
Legislative Analyst

Subject: Out-Year Effects of AB 1769

This responds to your request that we provide you with five-year projections of General Fund revenues, expenditures, and the resulting operating balance assuming adoption of AB 1769, as amended on June 24, 2003.

Background

As you may recall, we indicated in May that even if the Governor's May Revision budget proposals were adopted, the state would experience large operating shortfalls in the range of $7 billion annually for 2004-05 and beyond, absent further corrective actions. The large operating shortfalls reflected the expiration of the benefits associated with substantial one-time 2003-04 savings related to Medi-Cal accounting shifts, suspension of Proposition 42 transfers, and issuance of pension obligation bonds. The end of the two-year deferral of debt service payments also raises out-year costs.

Effects of AB 1769

Figure 1 shows that under AB 1769, the annual operating shortfalls would increase to over $10 billion in 2004-05 and beyond. The increase relative to the May Revision is primarily due to the rejection of (1) the Governor's realignment proposal (and its associated tax increases), and (2) various May Revision proposals for ongoing savings in the areas of Medi-Cal, Supplemental Security Income/State Supplementary Program, and California Work Opportunity and Responsibility to Kids Program.

Figure 1

Projected AB 1769 Revenues, Expenditures, and Operating Balances[a]

(In Billions)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenues	$81.1	$73.0	$73.2	$77.8	$83.2	$88.1
Expenditures	77.7	71.7	83.5	88.4	94.0	99.2
Annual Operating Balance	**$3.4**	**$1.4**	**-$10.2**	**-$10.6**	**-$10.8**	**-$11.1**

Detail may not total due to rounding.

[a] Assembly Bill 1769 amounts for 2002-03 and 2003-04, and LAO projections thereafter.

A portion of the added costs in these areas are offset under AB 1769 by further reductions in corrections and higher education, as well as fee increases and added revenues from the assumed expiration of the manufacturers' investment tax credit. However, the majority of the added costs are covered with one-time savings related to the sale of a second tobacco securitization bond and the use of new federal funds. It is the expiration of these one-time savings that is responsible for the majority of the increase in the out-year operating shortfalls relative to the May Revision.

If you have any questions about these projections, please call either me at 445-4656 or Brad Williams of my staff at 319-8306.